



AUDITOR-GENERAL  
SOUTH AFRICA

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Auditor-General of South Africa

# Dannhauser Municipality - Audit report 2015-16

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Dannhauser Municipality**

## **Report on the financial statements**

### **Introduction**

1. I audited the financial statements of the Dannhauser Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

3. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
4. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Opinion**

5. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Dannhauser Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Material impairments**

6. As disclosed in note 5 to the financial statements, material impairments to the amount of R 9,96 million (2015:R9,96 million) were incurred as a result of poor debt collection practices.

## **Additional matter**

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

8. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

9. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

10. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery and local economic development objectives presented in the annual performance report of the municipality for the year ended 30 June 2016.
11. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
12. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine

whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

13. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
14. No material findings in respect of the selected objectives were identified.

## **Additional matter**

### **Achievement of planned targets**

15. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

## **Compliance with legislation**

16. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Asset management**

17. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.

### **Annual financial statements**

18. The financial statements submitted for auditing were not prepared in all material respect in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, non-current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

### **Procurement and contract management**

19. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44.

## **Internal control**

20. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on compliance with legislation included in this report.

## Leadership

21. The accounting officer did not adequately exercise oversight responsibility over financial, performance reporting as well as compliance with legislation.

## Financial and performance management

22. Management has not implemented proper record keeping to ensure that information to support performance reporting is readily accessible and submitted for audit within the agreed timelines.
23. Furthermore management has not adequately reviewed and monitored compliance with the supply chain management legislation as a result material misstatements were identified.

## Governance

24. The risk management activities performed were not adequate to ensure that key financial, performance and compliance risks were identified and addressed timeously.

*Auditor General*

Pietermaritzburg

30 November 2016



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